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December 17, 1993

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DEC 17 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: CC Docket No. 92-296 - *Simplification of the Depreciation Prescription Process*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of their "Comments" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Enclosures

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

DEC 17 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Simplification of the)	CC Docket No. 92-296
Depreciation Prescription Process)	
_____)	

COMMENTS OF PACIFIC BELL AND NEVADA BELL

Pacific Bell and Nevada Bell respectfully submit their comments in response to the Order Inviting Comments, released November 12, 1993 in the above-captioned docket.¹ The Commission recently adopted a plan intended to simplify the depreciation prescription process for price cap carriers.² The basic factor range option requires that ranges will be established for all accounts and that ranges will be established for two of the basic factors comprising the depreciation rate formula: the projection life and future net salvage estimates.³ If a carrier proposes to use these estimates from within the established ranges, it need not submit the detailed

¹ Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, Report and Order, FCC 93-452, released October 20, 1993; FCC 93-492, Order Inviting Comments, released November 12, 1993, ("OIC").

² See Report and Order.

³ Report and Order at para. 6.

supporting data currently required.⁴ The OIC proposes ranges of projection life and future net salvage factors for an initial group of 22 depreciation rate categories, 19 of which apply to Pacific Bell. These rate categories represent approximately \$9 billion or only 37% of Pacific Bell's total depreciable investment.

- I. The net effect of the simplification effort so far appears to be an increase in the Commission's and carriers' work.

The OIC explains that because of current resources at the Commission, some technical problems that make it difficult to establish ranges for certain accounts cannot be immediately resolved so that ranges for all accounts could be available to use beginning in 1994. Thus, the OIC proposes ranges for only certain plant categories.⁵

While Pacific Bell and Nevada Bell are sympathetic to the conditions that make it difficult to establish ranges for all accounts immediately, the value of the simplification effort is severely impacted by the limited number of accounts for which ranges have been proposed. Pacific Bell and Nevada Bell will have their depreciation rates represetcribed in 1994. Thus, for us the effect of the simplification effort will be very minimal and will not be fully meaningful for at least 3 additional years

⁴ OIC at para. 2.

⁵ OIC at para. 4.

(until 1997, if the represcription process continues to occur every three years).

Moreover, many of the accounts for which ranges are proposed in the OIC are accounts for which the study/documentation process, to some extent, was already simplified. For many of the named accounts, carriers were permitted to use a streamlined study/documentation process which reduced the extent of work required of carriers. Thus, the extent of simplification to be accomplished by this OIC is much less than first anticipated. Furthermore, with the adoption of the basic factor range option, it appears that the streamlined process previously available has been eliminated. If a carrier's account does not come within the prescribed range, the carrier must now undertake a complete and cumbersome study instead of being permitted to follow a streamlined process for that account. This all adds up to a negative net effect for the simplification effort. The Commission should exert maximum resources to develop ranges for as many accounts as possible. If resources are limited, the Commission should reinstate the streamlined process used in the past for certain accounts representing less than 3% of the LEC's total investment (e.g., Special Purpose Vehicles, Furniture, other Terminal Equipment) and direct its simplification efforts to new accounts, thus increasing the overall number of accounts for which some type of simplification would apply. However, regardless of the initial number of accounts subject to simplification, there is no question that the simplification effort will be of limited value

to both the Commission and carriers until all accounts are subject to the simplified process.

- II. There is no evidence that the ranges proposed by the OIC reflect the Commission's decision.

The Commission initially proposed to adopt ranges of +/- one standard deviation from the industry-wide average of the basic factors underlying currently prescribed depreciation rates but modified that initial proposal.⁶

[W]e believe that our proposal may be too rigid. Our analysis indicates that, because of variances among LECs' basic factors, a range width of one standard deviation around the mean could be either too narrow or too wide for some accounts.... Therefore, in establishing ranges, we will start with ranges of one standard deviation.... From that point we will consider other factors such as the number of carriers with basic factors that fall within this initial range and future LEC plans in determining the actual range width for any one account.

The Commission's recognition of the need to consider other factors (than the one standard deviation) was heartening. However, the OIC does not reflect any such consideration. There is no evidence that the ranges proposed for the initial 22 accounts included considerations of other factors as directed by the Commission. Responses to the Commission's proposals clearly indicated that the basic factor range option could be acceptable if the ranges reflected timely and forward-looking information.

⁶ Report and Order at para. 62.

If other factors were considered, the Commission should explain what they were and how they influenced any change from the one standard deviation point.

III. Future technology should be considered in developing ranges.

The ranges established for accounts are based on historical data. The inevitable result is that the depreciation prescribed for carriers is outmoded. The data is historical and immediately undergoes a three-fold aging process -- it is old when first reported; it is even older by the time the represcribed rates go into effect and it continues aging through the years until the next represcription is ordered. Thus, if ranges are also based on historic data, they too will be out of date and clearly insufficient to permit carriers to recover the depreciation expense they believe they require to be competitive. The end result of ranges based on historical data is likely to be that carriers will not find the ranges to be acceptable. Carriers will need to request factors outside the ranges and will be required to submit extensive studies to justify the factors that will result in satisfactory rates. In other words, the old depreciation process will go on as usual. The Commission should require that ranges be developed based on forward-looking data. After all, the pace needed to recover current investment is influenced by the technological advances that spur new investment. Thus, forward-looking data should be considered in establishing ranges for factors.

IV. Existing rate categories should be maintained.

While ranges are generally established at the plant account level, the OIC proposes to establish ranges for homogeneous subdivision within accounts, known as rate categories.⁷ Pacific Bell and Nevada Bell agree that prescribing rates at the rate category, rather than a total account level enables carriers to refine their analysis and results in more accurate estimates for the accounts. Pacific Bell studies the accounts mentioned by the OIC by rate categories. In fact, Pacific Bell further disaggregates the cable account categories to distinguish between exchange and interoffice assets because there are considerable differences in lives for the assets.

The Commission should also permit companies to retain their current levels of categorization where those are more detailed than the Commission's. If a company's rate categories were acceptable before the simplification effort began, those categories should continue to be acceptable now. Requiring rate categories to be combined now would result in additional work for the carriers and the Commission.

Finally, the ranges should be broad enough to reflect the differences in lives that prompted the initial disaggregation of the account into rate categories. At the least they should

⁷ OIC at para. 5.


cover the composite of the categories to the Commission's rate category level. Moreover, if the composite of a carrier's rate categories is within the permissible range for an account, the carrier should be able to use that range.

V. Conclusion

For the reasons described above, Pacific Bell and Nevada Bell urge the Commission to adopt the recommendations above which will improve the implementation of the newly adopted basic factor range option, and result in greater simplification for the Commission and carriers.

Respectfully submitted,

PACIFIC BELL
NEVADA BELL

A handwritten signature in dark ink, appearing to read "James P. Tuthill", is written over a horizontal line.

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Their Attorneys

Dated: December 17, 1993

CERTIFICATE OF SERVICE

I, S. B. Ard, hereby certify that copies of the foregoing "COMMENTS OF PACIFIC BELL AND NEVADA BELL", re CC Dkt 92-296, were served by hand or by first-class United States mail, postage prepaid, upon the parties appearing on the attached Service List this 17th day of December, 1993.

By: SBard
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